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December 8, 2004

Law Enforcement Officers' & Firefighters' Plan 2 Retirement Board
P.O. Box 40918
Olympia, Washington 98504-0918

Re: Actuarial review of contribution rate impact of Duty Disability
Benefit improvements

Chairman Fox and Members of the Board:

There follow the results of our actuarial review of the LEOFF 2 contribution rate increases contained in the LEOFF 2 draft fiscal note of December 8, 2004 of the Office of the State Actuary.

Background

Currently, members "disabled in the line of duty" can elect to receive either 150% of their contribution account or an annuity equal to the member's accrued benefit actuarially reduced for early retirement, with a 10% of final average salary minimum. The benefit improvements currently being considered would remove the early retirement reduction for members disabled in the line of duty and, for those duty disablements found to be "totally disabled", would increase the annuity to 70% of final average salary.

The recommended contribution rate increases contained in the draft fiscal note of the Office of the State Actuary are shown below.

Employee	0.43%
Employer	0.25%
<u>State</u>	<u>0.18%</u>
Total	0.86%

In order to value this benefit, (1) assumptions as to incidences of disability were changed to reflect the design the new disability benefits and (2) mortality rates of those becoming disabled who previously took vested terminated benefits were changed from healthy to disabled mortality. The contribution rate increases shown above are based on these new assumptions.

Results of Review

Assumptions

Rates of disablement are based on experience of the Colorado Fire and Police Pension Association Death and Disability Fund, which provides benefits that are similar in design and administration to those being contemplated, and on the percentage of duty disablements under LEOFF 1 (85%). In addition, it has been assumed that, due to the favorable tax treatment afforded the 70% benefit, totally disabled members eligible for retirement will elect the 70% duty disability benefit rather than the service retirement benefit. We agree that these assumptions are reasonable for pricing this benefit.

Retroactive Provisions

As currently outlined, the improvement would not be retroactive. Should a retroactive provision be added, the contribution rate increases shown should be revised accordingly.

Contribution Rates

We independently calculated the increases in the LEOFF 2 Actuarial Present Value of Projected Benefits and the resulting contribution rate increases. Our results fell within a reasonable range of the State Actuary's results.

Conclusions

Contribution rates shown in the draft fiscal note of the Office of the State Actuary are appropriate for costing the contemplated benefit improvements.

The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Sincerely,



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Co.
Steve Nelsen, Executive Director
Matthew M. Smith, State Actuary